

HOUGHTON LAKE PUBLIC LIBRARY
HOUGHTON LAKE, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Houghton Lake Public Library	County Roscommon
Audit Date 6/30/04	Opinion Date 8/19/04	Date Accountant Report Submitted to State 11/18/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson & Decker, P.C.			
Street Address P.O. Box 746	City Roscommon	State MI	ZIP 48653
Accountant Signature		Date 11/18/04	

HOUGHTON LAKE PUBLIC LIBRARY

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Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

August 19, 2004

Board of Directors
Houghton Lake Public Library
4431 W. Houghton Lake Drive
Houghton Lake, MI 48629

We have audited the accompanying financial statements of the Houghton Lake Public Library as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Houghton Lake Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houghton Lake Public Library as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the Library has implemented a new financial reporting model as required by the provisions of GASB Statement No.34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments as of June 30, 2004.

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Houghton Lake Public Library. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.


ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HOUGHTON LAKE PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2004

This discussion and analysis mandated by GASB Statement No.34 provides an overview of the Houghton Lake Public Library's financial performance for the fiscal year 2003-04 and should be read in conjunction with the Library's financial statements.

General Fund Budgetary Highlights

The Library Board of Trustees and Director established a budget based on past budget experiences and current economic and financial conditions. The three main sources of library revenue are property tax, penal fines and state aid. Actual property tax and penal fines were a bit less than anticipated, which lowered actual revenue. The library was not ready to move forward on a technology project so some technology expenses were not expended. The Board had approved increased amounts for utilities due to projected increases by utility companies, the addition of almost 3,000 sq. feet to the library facility, and the cost of Internet connectivity being included now in the utility category. Utility expenditures were less due to the energy increases being less than expected, the renovated facility being fairly energy efficient, and the library receiving Universal Service Funding credit toward the annual cost for Internet connectivity.

Increased costs in wages and benefits resulted partly from an expansion of open hours (May 2003) from 40 to 50 hours per week, which required additional staff (one part-time and one full-time employee) and an increase in health insurance. A new custodial service was hired to replace the custodial service contract with the school district. Due to staff reductions, the school district could no longer provide custodial service to the library. A bid from a commercial service was accepted but at an additional annual cost of approximately \$2,500 per year. The budget was not amended during the fiscal year. The library ended the year with a net gain of \$96,205, an increase of 28% from the previous fiscal year. Adding the net revenue to the beginning fund balance, created an ending fund balance for this year of \$325,062.

Capital Assets and Debt Administration

The library has no long-term debt or long-term liabilities. The Board of Trustees approved using the fund balance to pay for the facility renovation and expansion project which began in July 2001 and was completed in November 2002. The library facility is leased from Houghton Lake Community School District for \$1 per year. The library does not engage in any business type activities only in the "governmental activities" of a district library entity.

HOUGHTON LAKE PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2004

Economic Factors and Next Year's Budget

Established in 1964 as part of the school system, the library moved into a new facility built with Federal funds in 1969. The library separated from the school to establish a district library in order to seek a millage and to provide a stable source of funding for library operations. The district wide tax on property was approved in 1996 at 1 mil into perpetuity. The Board assessed only .5 of that 1 mil and then increased the assessed amount in July of 2000 to .6 mil of a mil. The Board again set the millage at .6 for next year. The administration feels this will be adequate based on the Equalization Director's assessment that Roscommon County will realize an increase in property tax revenues in spite of a stable tax rate, due to new construction in the county.

Penal fines continue to be budgeted by the best judgment of the Library Board of Trustees and the Director. In light of last year's revenue shortfall in penal fines, the Board elected a conservative estimate for the next fiscal year.

The library plans to make major purchases of catalog software and computers to allow participation in MelCat, the statewide catalog service that will link all of Michigan's libraries electronically by September 30, 2007. The Board plans on using some of the fund balance that has accumulated from the past several years of conservative spending. Final costs of this project will be determined soon.

Contracting the Library's Management

This financial report is intended to provide the general public with an overview of the Library's finances and accountability for the money received. For any questions about this report or for additional information, please contact:

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HOUGHTON LAKE PUBLIC LIBRARY
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

Cash and equivalents	\$ 331,167
Prepaid Insurance	5,299
Capital Assets - Net	<u>850,345</u>
Total Assets	<u>1,186,811</u>

LIABILITIES

Liabilities	
Accrued payroll	9,039
Accounts payable	<u>2,365</u>
Total Liabilities	<u>11,404</u>

NET ASSETS

Investment in Capital Assets	850,345
Restricted for Capital outlay	25,000
Unrestricted	<u>300,062</u>
Total Net Assets	<u>\$ 1,175,407</u>

The accompanying notes are an integral part of these statements

HOUGHTON LAKE PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Program Expenses	
Salaries and wages	\$ 217,777
Benefits	98,393
Professional services	8,484
Insurance and bonds	8,227
Office supplies	13,664
Books and periodicals	41,137
Mid-Michigan Library	
League	7,922
Dues and subscriptions	998
Utilities	25,865
Repairs and maintenance	16,017
Travel and seminars	4,844
Advertising	581
Richfield Township	
Library	10,083
Depreciation Expense	41,990
Miscellaneous	<u>1,378</u>
Total Program Expenses	<u>497,360</u>
Program Revenues	
Charges for Services	<u>2,582</u>
Total Program Revenues	<u>2,582</u>
Net Program Revenues	<u>(494,778)</u>
General Revenues	
Property taxes	360,939
State shared revenue	13,681
Penal fines	176,284
Investment earnings	2,782
Public donations	9,970
Miscellaneous	<u>1,901</u>
Total General Revenues	<u>565,557</u>
Change in Net Assets	70,779
Net Assets	
Beginning of year	<u>1,104,628</u>
End of year	<u>\$ 1,175,407</u>

The accompanying notes are an integral part of these statements.

HOUGHTON LAKE PUBLIC LIBRARY
BALANCE SHEET
JUNE 30, 2004

ASSETS

Cash demand and investments	\$ 331,167
Prepaid Insurance	<u>5,299</u>
Total Assets	<u>\$ 336,466</u>

LIABILITIES AND FUND EQUITY

Liabilities

Accrued payroll	\$ 9,039
Accounts payable	<u>2,365</u>

Total Liabilities	<u>11,404</u>
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Fund Equity

Fund balance - Reserved	25,000
Fund balance - Undesignated	<u>300,062</u>
Total Fund Equity	<u>325,062</u>

Total Liabilities and Fund Equity	<u>\$ 336,466</u>
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The accompanying notes are an integral part of these statements

HOUGHTON LAKE PUBLIC LIBRARY
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Total governmental fund balance \$ 325,062

Amounts reported for governmental activities in
the statement of net assets are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds.

850,345

Net assets of governmental activities

\$ 1,175,407

The accompanying notes are an integral part of these statements

HOUGHTON LAKE PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
JUNE 30, 2004

REVENUES

Property taxes	\$ 360,939
State aid	13,681
Penal fines	174,778
Interest	2,782
Other	<u>15,959</u>
Total Revenues	<u>568,139</u>

EXPENDITURES

Salaries and wages	217,777
Benefits	98,393
Professional services	8,484
Insurance and bonds	8,227
Office supplies	13,664
Books and periodicals	41,137
Mid-Michigan Library League	7,922
Dues and subscriptions	998
Utilities	25,865
Repairs and maintenance	16,017
Travel and seminars	4,844
Advertising	581
Richfield Township Library	10,083
Capital outlay	16,564
Miscellaneous	<u>1,378</u>
Total Expenditures	<u>471,934</u>

EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	96,205
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FUND BALANCE, beginning of year	<u>228,857</u>
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FUND BALANCE, end of year	<u><u>\$ 325,062</u></u>
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The accompanying notes are an integral part of these statements.

HOUGHTON LAKE PUBLIC LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Net Change in fund balance-total governmental funds \$ 96,205

Amounts reported for governmental activities
in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.

25,426

Change in net assets of governmental activities.

\$ 70,779

See accompanying notes to the basic financial statements.

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE A - ENTITY

The public library was organized in 1964, and construction for a new building, financed with federal funds, began in 1969. The library receives 6/10 of 1 mil property taxes in perpetuity for operations which was approved by the electorate of the District. In addition, the Library receives penal fines collected through the Counties of Roscommon and Missaukee for public library operations. Until April 1, 1996 the public library was operated by Houghton lake Community Schools (District) as a community service. As of April 1, 1996, a separate entity was formed to operate the public library as a district library. All operating assets, with the exception of the library building, which is being leased for \$1 annually from the District, were transferred to the new entity which also assumed all liabilities as of April 1, 1996. The District is no longer fiscally responsible for the library. These statements reflect results of operations for the twelve month period ended June 30, 2004.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Houghton Lake Public Library conform to generally accepted accounting principles as applicable to governmental. The following is a summary of the significant policies:

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Governmental Accounting Standards Board Statement No.34

For the fiscal year ended June 30, 2004 the Library implemented GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34). This statement affects the manner in which the Library records transactions and presents financial information.

State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB 34 establishes new requirements and a new reporting model, much like private-sector financial reports, for the annual financial reports of state and local governments. The new format was developed to make annual reports of state and local governments easier to understand and more useful to users of governmental financial information.

Management's Discussion and Analysis-GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Library's financial activities in the form of management's discussion and analysis (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Government-Wide Financial Statements-The reporting model includes financial statements prepared using full accrual accounting for all the Library's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements include the following:

Statement of Net Assets-The statement of net assets is designed to display the financial position of the Primary Government (governmental and business-type activities) and the total of its discretely presented component parts. The Library reports capital assets in the government-wide statement of net assets and reports depreciation expense-the cost of "using up" capital assets-in the statement of activities. The net assets of the Library are broken down into three categories-1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities-The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the Library's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the Library has recorded capital assets and certain other long-term assets and liabilities in the statement of net assets and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. Implementation of GASB 34 has had a significant impact on the Library's financial statements for the year ended June 30, 2004.

Governmental Accounting Standards Board Statement No.37

For the fiscal year ended June 30, 2004, the Library implemented GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus* (GASB 37). This statement amends GASB 34 to either: 1) clarify certain provisions, or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the Library considered the effects of this statement when implementing the provisions of GASB 34, as previously described.

DEFINING THE REPORTING ENTITY

In evaluating how to define the Library, for financial reporting purposes, management has considered all potential component units. The decision to include potential component units in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*. Based upon the application of these criteria, the general purpose financial statements of the Houghton Lake Public Library contain all the funds and account groups controlled by the Library's Board as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the Library nor is the Library a component unit of another entity.

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

BASIS OF PRESENTATION-GOVERNMENT WIDE FINANCIAL STATEMENTS

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information on the Houghton Lake Public Library as a whole. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Library's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

BASIS OF PRESENTATION-FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING-GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Miscellaneous amounts reported as program revenue include: charges to customers for copies or services. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes property taxes, state shared revenues, penal fines and book fines, along with public donations and interest income.

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

MEASUREMENT FOCUS/BASIS OF ACCOUNTING--FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

DEPOSITS AND INVESTMENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from date of acquisition.

State statutes authorize the Library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services. The Library is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

PROPERTY TAXES

Property taxes levied by the Library are collected by various municipalities and periodically remitted to the Library. The taxes are levied as of July 1 for all Roscommon County townships and two townships in Missaukee County, and December 1 for the three remaining townships in Missaukee County, and are due upon receipt of the billing by the taxpayer. The actual due date is September 14 for all Roscommon County townships and two townships in Missaukee County, and February 14 for the three remaining townships in Missaukee County, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. Property tax revenues are recognized when levied. For the year ended June 30, 2004, the District levied the following amounts per \$1,000 of assessed valuation for Library operations:

	<u>Mils</u>
Public Library	.6

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

BUDGETS AND BUDGETARY ACCOUNTING

1. Prior to June 1, the Board proposed an operating budget for the fiscal year commencing the following July 1.
2. Prior to July 1, the budget was adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates.

Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statements of revenues, expenditures, and changes in fund balances - budget and actual.

3. Any revisions that alter the total expenditures of any function must be approved by the Board.

CAPITAL ASSETS AND DEPRECIATION

The Library's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Library generally capitalizes assets with historical cost of \$1,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Estimated useful lives, in years, for depreciable assets are as follows:

Computers and peripherals	1-3 years
Office furniture	5-20 years
Buildings and improvements	25-40 years
Land improvements	10-20 years
Machinery and equipment	5-10 years

Land and construction in progress are not depreciated.

NOTE C - CASH AND INVESTMENTS

At June 30, 2004 the book value of the Library's deposits, consisting primarily of interest bearing savings and checking accounts, was \$331,167 and the bank balances was \$338,031. Of the bank balances, 5% was covered by Federal Depository Insurance.

Checking and Savings	\$ 10,855
Governmental Operating Money Market Fund	<u>320,312</u>
	<u>\$ 331,167</u>

The Government Accounting Standards Board Statement No. 3 risk disclosures for the Library's cash deposits are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 10,855	\$ 17,719
Uninsured and Uncollateralized	<u>320,312</u>	<u>320,312</u>
Total Deposits	<u>\$ 331,167</u>	<u>\$ 338,031</u>

NOTE D - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2004 the Library incurred expenditures in excess of the amounts appropriated in the General Fund as follows:

<u>Fund</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Salaries and wages	\$ 217,500	\$ 217,777	\$ (277)
Books and Periodicals	40,500	41,137	(637)
Advertising	500	581	(81)
Richfield Township Library	10,000	10,098	(98)
Miscellaneous	750	1,378	(628)

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE E - EMPLOYEE RETIREMENT SYSTEM

The Library employees were considered employees of the Houghton Lake Community Schools (District) through June 30, 1996. As a result, these employees were covered under the District's retirement system. Beginning February 1, 1998, all other employees are covered under the Library's retirement system.

Under the District's retirement plan, substantially all of the Library employees were eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990, were automatically included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable services or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The total amount contributed to the Plan for the year ended June 30, 2004 was \$4,815; which consisted of \$3,703 from the Library and \$1,112 from employees electing the MIP option. The payroll for employees covered by the system for the year ended June 30, 2004 was approximately \$28,509; the Library's total payroll, subject to retirement benefits, was approximately \$199,946.

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE E - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Under the Library's retirement plan, employees are eligible to contribute to the Michigan Municipal Employees Retirement System, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipalities in the State of Michigan. The Library's payroll for the 6 members covered by the system for the year ended June 30, 2004 was approximately \$171,436.

All full time Library employees are eligible to participate in the system. Benefits vest after six years of service. Library employees who retire at or after age 60 with 10 years credited service or 50 with 25 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of the member's 5-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

The Library is required to contribute amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by statute.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ -0-
Terminated employees not yet receiving benefits	-0-
Current Employees; Accumulated employee contributions including Allocated investment income	-0-
Employer financed	<u>147,223</u>
Total actuarial accrued liability	147,223
Net assets available for benefits, at actuarial value (Market value is \$140,551)	<u>153,926</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ (6,703)</u>

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE E - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	July 1, 2005
Annual required contribution (ARC)	20,988
Amortization factor used	.051679

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. The following table provides a schedule of contribution amounts and percentages from the start of the plan.

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 79,494	65%	\$ 28,060
2002	107,652	104%	(4,757)
2003	147,223	105%	(6,703)

The Library contributed \$26,007 for the year ended June 30, 2004.

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % Of Covered Payroll</u>
2001	51,434	79,494	28,060	65%	109,652	26%
2002	112,409	107,652	(4,757)	104%	134,432	0%
2003	153,926	147,223	(6,703)	105%	168,134	0%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE E - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Other Post-Employment Benefits

Under the MERS' act all retirees have the option of continuing health, dental, and vision coverage. These benefits are included in the pension benefit obligation.

NOTE F- RISK MANAGEMENT

Through June 30, 2004, the Library was insured for risk of loss, employee health and accident coverage. Under most circumstances, the Library's maximum coverage is limited as follows:

<u>Type</u>	<u>Limit</u>	<u>Deductible</u>
Property	\$ 2,775,000	\$ 250
Liability	1,000,000	-0-
Errors and Omission	1,000,000	-0-
Crime	10,000	-0-
Workmen's Compensation	STATUTORY	-0-
Inland Marine	138,500	100

NOTE G - INEXHAUSTIBLE COLLECTIONS AND BOOKS

Because the values of the existing inexhaustible collections, including research books, are not readily determinable, the Library has not capitalized them. Books used in the circulating library have not been capitalized because their estimated useful lives are less than one year.

NOTE H - RESTRICTED NET ASSETS:

On January 15, 2003 the Board established a capital replacement reserved fund balance in the amount of \$25,000. This reserve was created to fund major unforeseen expenditures. The balance of this reserve on June 30, 2004 was \$25,000.

HOUGHTON LAKE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE I - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 7/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/04</u>
Capital Assets Being Depreciated:				
Buildings Improvements	\$ 834,748	\$ 2,111	\$ -0-	\$ 836,859
Office Equipment	76,627	-0-	-0-	76,627
Technology Equipment	<u>116,621</u>	<u>-0-</u>	<u>-0-</u>	<u>116,621</u>
Total	<u>1,027,996</u>	<u>2,111</u>	<u>-0-</u>	<u>1,030,107</u>
Less Accumulated Depreciation:				
Buildings Improvements	82,543	12,519	-0-	95,062
Office Equipment	13,990	7,662	-0-	21,652
Technology Equipment	<u>41,239</u>	<u>21,809</u>	<u>-0-</u>	<u>63,048</u>
Total	<u>137,772</u>	<u>41,990</u>	<u>-0-</u>	<u>179,762</u>
Total Net Capital Assets	<u>\$ 890,224</u>	<u>\$ (39,879)</u>	<u>\$ -0-</u>	<u>\$ 850,345</u>

REQUIRED SUPPLEMENTAL INFORMATION

HOUGHTON LAKE PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2004

REVENUES	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Property taxes	\$ 365,000	\$ 365,000	\$ 360,939	\$ (4,061)
State aid	10,000	10,000	13,681	3,681
Penal fines	185,000	185,000	174,778	(10,222)
Interest	5,000	5,000	2,782	(2,218)
Other	15,000	15,000	15,959	959
Total Revenues	580,000	580,000	568,139	(11,861)
EXPENDITURES				
Salaries and wages	217,500	217,500	217,777	(277)
Benefits	108,000	108,000	98,393	9,607
Professional services	9,000	9,000	8,484	516
Insurance and bonds	8,500	8,500	8,227	273
Office supplies	15,000	15,000	13,664	1,336
Books and periodicals	40,500	40,500	41,137	(637)
Mid-Michigan Library League	8,500	8,500	7,922	578
Dues and subscriptions	1,500	1,500	998	502
Utilities	42,250	42,250	25,865	16,385
Repairs and maintenance	21,500	21,500	16,017	5,483
Travel and seminars	6,500	6,500	4,844	1,656
Advertising	500	500	581	(81)
Richfield Township Library	10,000	10,000	10,083	(83)
Capital outlay	90,000	90,000	16,564	73,436
Miscellaneous	750	750	1,378	(628)
Total Expenditures	580,000	580,000	471,934	108,066
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	-0-	-0-	96,205	96,205
FUND BALANCE, beginning of year	228,857	228,857	228,857	-0-
FUND BALANCE, end of year	\$ 228,857	\$ 228,857	\$ 325,062	\$ 96,205

The accompanying notes are an integral part of these statements.